



ARNOLD SCHWARZENEGGER, GOVERNOR

915 L STREET ■ SACRAMENTO CA ■ 95814-3706 ■ WWW.DOF.CA.GOV

August 29, 2007

Mr. Seyed Sadredin, Executive Director, Air Pollution Control Officer
San Joaquin Valley Air Pollution Control District
1990 East Gettysburg Avenue
Fresno, CA 93726-0244

Dear Mr. Sadredin:

Final Report—Fiscal Review of the San Joaquin Valley Air Pollution Control District's Carl Moyer Program, Lower-Emission School Bus Program, and AB 923 Funds.

Enclosed is the final report of the fiscal review of the San Joaquin Valley Air Pollution Control District's Carl Moyer Program, Lower-School Bus Program, and AB 923 funds for July 1, 2002 through April 30, 2007. The District's response has been incorporated into the final report.

We appreciate the assistance and cooperation of your staff and management during our review. If you have any questions, please contact Mary Kelly, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Tom Cackette, Acting Executive Officer, Air Resources Board
Mr. Jack Kitowski, Branch Chief, Mobile Source Control Division, Air Resources Board
Ms. Lucina Negrete, Manager, Mobile Source Control Division, Air Resources Board
Mr. Fred Bates, Chief Financial Officer, San Joaquin Valley Air Pollution Control District

San Joaquin Valley Air Pollution Control District
Carl Moyer Program
Lower-Emission School Bus Program
Assembly Bill 923

Prepared By:
Office of State Audits and Evaluations
Department of Finance

FISCAL REVIEW

Mr. Seyed Sadredin, Executive Director, Air Pollution Control Officer
San Joaquin Valley Air Pollution Control District
1990 East Gettysburg Avenue
Fresno, CA 93726-0244

The California Air Resources Board (Board) contracted with the Department of Finance, Office of State Audits and Evaluations (Finance), to perform a fiscal review of the San Joaquin Valley Air Pollution Control District's (District) implementation of the Carl Moyer Program, the Lower-Emission School Bus Program, and use of AB 923 funds for fiscal years 2002-03 through 2005-06. Concurrent to this review, the Board also conducted a program audit of the District's Carl Moyer Program and the Lower-Emission School Bus Program and issued its report in July 2007.

Background

The District's mission is to achieve clean air, and to protect the public health and the environment. The District implements multiple clean-air programs supported by federal, state, and local funds. This review encompasses three programs funded by the state: the Carl Moyer Program (CMP), the Lower-Emission School Bus Program (LESBP) Retrofit and Replacement Programs, and AB 923 funds.

The objective of the CMP is to contribute to cleaner air by funding the incremental cost of replacing or retrofitting older engines with cleaner-than-required engines and equipment. Public or private entities that operate eligible engines or equipment within the District's jurisdiction participate by applying to the District for a grant. Examples of eligible engines and equipment include heavy-duty vehicles, marine applications, locomotives, agricultural pumps, forklifts, and auxiliary power units.

The primary purpose of the LESBP is to reduce school children's exposure to cancer-causing and smog-forming pollution. The LESBP achieves this through a Replacement Program and a Retrofit Program. The Replacement Program funds the replacement of older high-polluting school buses with new buses. The Retrofit Program funds the installation of Board-approved pollution control devices on diesel school bus engines.

Assembly Bill 923 (Chapter 707, Statutes of 2004) provided two additional sources of funding for the CMP. By adjusting fees assessed on purchasers of new tires, the legislation resulted in approximately \$25 million for clean air programs in 2005-06. AB 923 also provided air district governing boards with the authority to approve a \$2 increase in motor vehicle registration fees. This increase provides up to \$55 million annually to local air districts for four incentive programs: (1) the CMP, (2) the LESBP's Replacement Program, (3) light-duty accelerated vehicle retirement or repair programs, and (4) the Agricultural Assistance Program.

Scope and Methodology

The Board engaged Finance to review the District's fiscal administration of the CMP, the LESBP, and AB 923 funds, and the District's fiscal compliance with applicable laws, regulations, guidelines, and contract requirements. District processes for receiving, recording, and disbursing program funds; allocating administrative costs and earned interest; and meeting match funding requirements were analyzed. Schedules were created from the District's records to summarize amounts received and disbursed for the programs and funds from July 1, 2002 through April 30, 2007. Finally, site visits were conducted to interview program participants and review pertinent documents.

The review was not conducted in accordance with *Generally Accepted Government Auditing Standards*, and did not include extensive testing of the District's internal control or the programmatic appropriateness of expenditures. Had additional procedures been performed, other matters might have come to our attention that would have been reported.

Analyses and Summary Schedules

Carl Moyer Program:

The following schedule illustrates CMP funds awarded and expended for program years 5, 6, 7, and 8. Years 7 and 8 awards include project, administration, and multi-district funding. Years 5 and 6 have remaining unexpended project fund balances (Observation 1). Based on CMP funding guidelines, the District had until June 30, 2007 to expend the remaining year 7 project funds, and has until June 30, 2008 to expend the remaining year 8 project funds. However, as described on page 22 of the Board's July 2007 audit report, the Board allows a cumulative analysis of expenditures to determine if program requirements have been met.

The District uses a distributed labor and administration cost methodology to calculate administration costs charged to the CMP. Using this methodology, the District has fully expended the year 7 administration grant funds and substantially expended the year 8 funds. While the administration expenses appropriately relate to CMP activities, they are not directly supported by timesheets as required by CMP guidelines (Observation 2).

CMP Year	Fiscal Year	Award Amount	Expenditures Within Grant Period	Balance as of End of Grant Period ¹	Expenditures After Grant Period	Balance as of 4/30/2007
5	2002-03	3,187,325	(1,347,053)	1,840,272	(1,771,468)	68,804
6	2003-04	2,793,355	(2,247,595)	545,760	(261,558)	284,202
7	2004-05	2,821,709	(2,754,056)	N/A	N/A	67,653
7 Admin.	2004-05	65,316	(65,316)	N/A	N/A	0
7 Multi-Dist.	2004-05	540,228	0	N/A	N/A	540,228
8	2005-06	11,829,362	(4,698,714)	N/A	N/A	7,130,648
8 Admin.	2005-06	273,828	(272,853)	N/A	N/A	975
8 Multi-Dist.	2005-06	327,028	0	N/A	N/A	327,028

(1) Year 5 grant period ended 6/30/05; Year 6 grant period ended 6/30/06; Year 7 grant period ended 6/30/07; Year 8 grant period ends 6/30/08.

Carl Moyer Program Match Requirements:

The following schedule illustrates the CMP match requirements and expenditures for program years 5, 6, 7, and 8. The District fully met match requirements for years 5, 6, and 7 by completing eligible projects funded with local-control funds, and has until June 30, 2008 to meet the remaining year 8 match funding requirement.

CMP Year	Fiscal Year	Required District Match	Match Expenditures Within Grant Period	Remaining Match Requirement
5	2002-03	1,593,663	(1,593,663)	0
6	2003-04	1,396,678	(1,396,678)	0
7	2004-05	1,284,931	(1,284,931)	0
8	2005-06	1,856,460	(1,605,128)	251,332

Carl Moyer Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of Carl Moyer Program funds during the review period. Due to a clerical error, the interest earned is understated by \$98,647 as of April 30, 2007 (Observation 3). The District's interest calculation methodology, however, is appropriate and allocations are otherwise materially correct and properly recorded. Because the District calculates and allocates interest earned at the end of each fiscal year, the amount earned for 2006-07 is not available. The district has appropriately used \$582,230 of earned interest to fund CMP eligible projects.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2002-03	652,888	164,611	0	817,499
2003-04	817,499	95,642	0	913,141
2004-05	913,141	119,188	0	1,032,329
2005-06	1,032,329	308,683	(89,672)	1,251,340
2006-07	1,251,340	N/A	(492,558)	758,782
Total Expenditures			(582,230)	758,782
Plus Understated Interest as of 4/30/07 (add)				98,647
Total Earned Interest				857,429

Lower-Emission School Bus Program:

The following schedule illustrates LESBP Replacement and Retrofit Program funds awarded and expended during the review period. The District did not receive LESBP Retrofit or Replacement Program funding during 2002-03 and 2003-04, and the LESBP was not funded state-wide during 2004-05. The District is participating in both the 2005-06 Retrofit and Replacement Programs. The Board's July 2007 audit report contains additional analysis of the District's LESBP implementation.

Fiscal Year	Program	Award Amount	Expenditures as of 4/30/2007	Balance as of 4/30/2007
2005-06	Replacement	4,340,000	(2,938,214)	1,401,786
2005-06	Retrofit	1,223,000	(639,868)	583,132

Lower-Emission School Bus Program Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of LESBP funds for the Retrofit and Replacement Programs during the review period. The District had a beginning balance of earned interest from prior Retrofit Program funding cycles. Prior to 2005-06 the District did not administer a Replacement Program. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. Because the District calculates and allocates interest earned at the end of each fiscal year, the amount earned for 2006-07 is not available. The District has not expended any of the LESBP earned interest funds.

Fiscal Year	Program	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2002-03	Retrofit	41,747	30,858	0	72,605
2003-04	Retrofit	72,605	21,033	0	93,638
2004-05	Retrofit	93,638	16,196	0	109,834
2005-06	Retrofit	109,834	19,017	0	128,851
2006-07	Retrofit	128,851	N/A	0	128,851
2005-06	Replacement	0	44,848	0	44,848
2006-07	Replacement	44,848	N/A	0	44,848

Assembly Bill 923:

The following schedule illustrates the AB 923 monies received and expended from receipts beginning July 2005 (from tax collections beginning in May 2005) through April 30, 2007. The District has expended \$2,165,764 on eligible projects, and the administration charges of \$393,397 (4.1 percent of collections) are appropriate as allowed by the statute.

2005-06 Receipts	2006-07 Receipts	Total Receipts	Expenditures	Administration Charges	Balance as of 4/30/2007
5,150,030	4,489,993	9,640,023	(2,165,764)	(393,397)	7,080,862

Assembly Bill 923 Earned Interest:

The following schedule illustrates the District's allocation of interest earned on the cumulative unexpended balances of AB 923 funds during the review period. The District's interest calculation methodology is appropriate and the allocations are materially correct and properly recorded. Because the District calculates and allocates interest earned at the end of each fiscal year, the amount earned for 2006-07 is not available. The District has not expended any of the AB 923 earned interest funds.

Fiscal Year	Beginning Balance	Interest Earned	Expenditures	Ending Balance
2005-06	0	78,726	0	78,726
2006-07	78,726	N/A	0	78,726

Carl Moyer Program

Review of the District's compliance with the fiscal requirements of the CMP, the LESBP, and AB 923 funds resulted in the following observations:

1. Payments of \$1,771,468 (56 percent) of the year 5 award and \$261,558 (9 percent) of the year 6 award were made after the respective grant periods. Furthermore, \$68,804 (2 percent) of the year 5 award and \$284,202 (10 percent) of the year 6 award remain unspent as of April 30, 2007.

Recommendation:

The District should work with the Board to develop a plan to return or expend the remaining funds on eligible projects.

2. The District's methodology to allocate administration charges is a distributed labor cost methodology. The methodology does not allow for support of costs by timesheets, as required by CMP guidelines.

Recommendation:

The District should enhance the Labor Reporting System for more detailed timesheet reporting to allow the correct determination of administration costs.

3. The District's CMP interest calculation worksheet understated the beginning balance as of July 1, 2002 by \$88,939. The understatement resulted in insufficient interest allocations posted to the CMP Interest account at the end of fiscal years 2002-03, 2003-04, 2004-05, and 2005-06. Due to compounding interest, the understated amount grew to \$98,647 as of April 30, 2007.

Recommendation:

The District should record an adjusting entry to correct the account balance.

4. Program expenditure data per Finance Program accounting records differs materially from data provided by the Emission Reduction Incentive Program (ERIP) staff, even though the District has processes to reconcile accounting data to program data. Analysis revealed six project expenditures totaling \$125,459 recorded in the accounting records that are not reflected in the ERIP records, and 11 duplicate entries totaling \$527,915 in the ERIP records.

Recommendation:

The District should enhance the Carl Moyer reconciliation policies for accounting and ERIP records.

The District's assistance and cooperation with our review was appreciated. If you have any questions regarding this report, please contact Mary Kelly, Manager, at (916) 322-2985.

This report is a matter of public record and its distribution is not limited.

Original signed by:

Diana L. Ducay
Chief, Office of State Audits and Evaluations

July 26, 2007

DISTRICT'S RESPONSE



San Joaquin Valley

AIR POLLUTION CONTROL DISTRICT

August 9, 2007

Diana L. Ducay, Chief
Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814

RE: San Joaquin Valley APCD Response to
Fiscal Review of Carl Moyer Program, Lower-Emission
School Bus Program and AB 923 Funds
Draft Audit Report

Dear Ms. Ducay,

The San Joaquin Valley Air Pollution Control District (SJVAPCD) wishes to thank you and your staff for the thorough and comprehensive fiscal review of the SJVAPCD's Carl Moyer Memorial Air Quality Standards Attainment Program (Carl Moyer Program), Lower-Emission School Bus Program and AB 923 funds.

We appreciate your staff's professionalism and applaud their fair and balanced approach to this audit. The SJVAPCD strives to provide the highest quality customer service across all of our programs, while maintaining the utmost integrity and efficiency.

We welcome this opportunity to gain important feedback regarding our administration of the Carl Moyer Program, Lower Emission School Bus Program and AB 923 funds and value the observations and recommendations that have been presented. Periodic programmatic and fiscal evaluations such as these are important tools that we use to ensure continuous improvement in our operation of these important emission reduction strategies.

The following is the SJVAPCD's response and written plan of action in reference to the audit observations:

Observation 1:

Payments of \$1,771,468 (56%) of the year 5 award and \$261,558 (9 percent) of the year 6 award were made after the respective grant periods. Furthermore, \$68,804 (2 percent) of the year 5 award and \$284,202 (10 percent) of the year 6 award remain unspent as of April 30, 2007.

Seyad Sadredin
Executive Director/Air Pollution Control Officer

Recommendation:

The District should work with the Board to develop a plan to return or expend the remaining funds on eligible projects.

• **SJVAPCD Response:**

As a complement to this fiscal audit, the California Air Resources Board (ARB) is in the final stages of conducting a programmatic audit of the SJVAPCD's administration of the Carl Moyer Program and Lower Emission School Bus Program. On July 16, 2007, the ARB issued a draft report with their findings. In their audit report, the ARB states that they examine expenditures on a cumulative basis to ensure that anticipated emission reductions are achieved by the deadlines, regardless of the fiscal year in which the funding originated. Page 22 of the draft ARB audit report states the following:

"For fiscal year 2002/2003, \$1.2 million of the \$3.1 million awarded was expended late. However, San Joaquin Valley APCD did expend those funds by mid-October 2005 (i.e. 4 months after the deadline) and met the fiscal year 2003/2004 expenditure deadline. San Joaquin Valley APCD met the expenditure deadline for fiscal year 2004/2005 well ahead of schedule. It also appears that the District is on schedule for fiscal year 2005/2006 and fiscal year 2006/2007, having already expended 40 percent of fiscal year 2005/2006 funds and obligated 24 percent of fiscal year 2006/2007 funds. This is especially noteworthy given that the San Joaquin Valley APCD's Carl Moyer Program funding level more than tripled starting in 2005/2006 – from an average annual allocation of about \$3.8 million for the seven previous years to about \$12 million in fiscal year 2005/2006. Moreover, funding for the 2006/2007 fiscal year is at a similarly high level – approximately \$11 million. Thus, while there was a minor issue with late expenditures, ARB believes that this issue has been satisfactorily addressed."

It is also important to note that the SJVAPCD has met all deadlines for the obligation of Carl Moyer Program funds. Unexpended funds from prior fiscal years are the result of project cancellations, payments that were less than the contracted amounts for particular projects as well as funds resulting from SJVAPCD enforcement actions (i.e. funds returned to the SJVAPCD from non-performing or under-performing grant recipients). It has been SJVAPCD policy that returned funds are placed back into the accounts from which they originated, resulting in remaining balances in prior fiscal year accounts. In all cases, however, the returned funds are immediately re-obligated to other eligible projects and are expended as those projects are completed. In fact, the SJVAPCD grant programs have been so successful that currently, we have applications for approximately \$120 million in eligible projects; far exceeding our available funding. So the immediate re-obligation of returned funds would not present any issues.

The SJVAPCD is working closely with the ARB to determine an alternate method for dealing with returned funds. Essentially, returned funds are now placed in with the funds from the fiscal year in which they are returned and spent along with those current year's funds. SJVAPCD staff is developing a method for reporting to ARB so that these can be properly tracked.

Observation 2:

The District's methodology to allocate administration charges is a distributed labor cost methodology. The methodology does not allow for support of costs by timesheets, as required by CMP guidelines.

Recommendation:

The District should enhance the Labor Reporting System for more detailed timesheet reporting to allow the correct determination of administrative costs.

• **SJVAPCD Response:**

The District has enhanced its Labor Reporting System to require timesheet entries that will provide detailed labor totals for all incentive contract categories. This enhancement will allow the District to more accurately determine the allocation of administrative costs.

Observation 3:

The District's CMP interest calculation worksheet understated the beginning balance as of July 1, 2002 by \$88,939. The understatement resulted in insufficient interest allocations posted to the CMP Interest account at the end of fiscal years 2002-03, 2003-04, 2004-05, and 2005-06. Due to compounding interest, the understated amount grew to \$98,647 as of April 30, 2007.

Recommendation:

The District should record an adjusting entry to correct the account balance.

• **SJVAPCD Response:**

An adjusting entry will be made during the year-end close of FY 06/07 to reflect the correct amount of Carl Moyer Interest in the FY 06/07 Comprehensive Annual Financial Statements.

Observation 4:

Program expenditure data per Finance Program accounting records differs materially from the data provided by the Emission Reduction Incentive Program (ERIP) staff, even though the District has processes to reconcile accounting data to program data. Analysis revealed six project expenditures totaling \$125,459 recorded in the accounting records that are not reflected in the ERIP records, and 11 duplicate entries totaling \$527,915 in the ERIP records.

Recommendation:

The District should enhance the Carl Moyer reconciliation policies for accounting and ERIP records.

• **SJVAPCD Response:**

The SJVAPCD ERIP staff and Finance Department staff both utilize the same electronic database (Community PEARL) to track all Carl Moyer Program data, including program data (i.e. emission reductions, project life, applicant information, etc.) and financial data (i.e. account balances, expenditures, obligations, interest, etc.). The data from Community PEARL is reconciled to the SJVAPCD General Ledger on a monthly basis. The discrepancies noted in the audit report were not the result of inaccurate accounting or reconciliation. Rather, the discrepancies were due to a minor error in the specialized query that was constructed to extract the requested information from Community PEARL specifically for this audit. This query error resulted in a few duplicate project records and a few missing records in the report. This ad-hoc report and underlying query was developed specifically for this audit and is not used by ERIP or Finance Department staff for any other purpose. It is important to note that the duplicate or missing records identified in the audit report do not exist within Community PEARL or the General Ledger, but were confined only to the single ad-hoc report generated with the flawed query. Furthermore, the SJVAPCD is currently developing an entirely new grant-tracking database with much more intuitive data querying capabilities, which will significantly enhance the report-generating capabilities and reduce or eliminate these types of errors.

Again, I appreciate this opportunity to gain important feedback regarding our implementation of these important emission reduction strategies. If you have any questions, please do not hesitate to call me at (559) 230-6000.

Sincerely,

Original signed by:

Sayed Sadredin
Executive Director/APCO

EVALUATION OF RESPONSE

We received the San Joaquin Air Pollution Control District's (District) response to our draft fiscal review report on the Carl Moyer Program, Lower-Emission School Bus Program, and AB 923 Funds. Their response is incorporated in this report; our evaluation of the response is as follows:

Observation 1:

The District does not dispute that expenditures occurred after the allowable grant period, nor do they dispute that unspent balances remain. Rather, they provide further detail of the underlying circumstances. They also explain that the California Air Resources Board (ARB) has allowed an alternative interpretation methodology that mitigates the condition. The District is following our recommendation to work with the ARB to fund eligible projects with the remaining funds.

Observation 4:

The District does not dispute that program expenditure data differed between the District's Emission Reduction Incentive Program (ERIP) and Finance Program. Instead, they explain the circumstances that led to the disparity. We did not conduct further testing to verify that ERIP data agreed with Finance Program data. The District is following our recommendation to develop an enhanced grants database to ensure that program data and reports are accurate.